

ORS Audit Department Work Paper Preparation and Work Paper Review Process Standardization

February 3, 2015

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I. Agency and Industry Background

The South Carolina Office of Regulatory Staff (“ORS”) was created with the enactment of Act 175 of 2004. The ORS is responsible for many of the non-adjudicative functions associated with utility regulation that were formerly performed by the Public Service Commission of South Carolina (“PSC”). Prior to Act 175, the PSC handled all aspects of utility regulation. The creation of the ORS by Act 175 provided a revised structure for addressing the public interest that clearly separates the adjudicative function of utility regulation, which remains with the PSC, from the investigative, legal, prosecutorial, and educational roles now performed by ORS.

The ORS has sole responsibility for inspecting, auditing, and examining investor owned public utilities. The agency must be considered a party of record in all filings, applications, or proceedings before the PSC.

The ORS is charged with representing the public interest of South Carolina in utility regulation for investor owned utilities within the major utility industries -- electric, natural gas, telecommunications, water/wastewater, and transportation -- before the PSC, the court system, the South Carolina General Assembly, and federal regulatory bodies. The ORS also has responsibility for oversight of railroad safety and natural gas pipeline safety in South Carolina, as well as responsibility for monitoring the construction schedule and budget of new nuclear development in South Carolina.

Act 175 defines public interest as a balance among three essential components: the concerns of the using and consuming public; the financial integrity of public utilities; and the economic development of South Carolina.

In addition, Act 175 created a State Regulation of Public Utilities Review Committee. This ten-member committee is composed of six members of the S.C. General Assembly and four representatives from the general public. The Agency is not funded by the State's General Fund but is considered an "Other Funded" Agency, primarily funded through collection of Gross Receipts Taxes on the utilities and operators.

II. GAP Statement / Purpose of Project: ORS Audit Process Standardization

The South Carolina Office of Regulatory Staff's Audit Department ("audit department") consists of a Director, Deputy Director, four (4) managers, eight (8) auditors and one (1) administrative assistant. The audit department is responsible for review of electric, gas, nuclear, telecommunications and water / waste water filings by investor owned utility companies with the PSC. One essential function of the audit department is to ensure that utilities file accurate and properly supported rate case applications. Without audit department review, utilities could purposely misstate financial information on rate case applications to obtain higher rates, more profit and more return for their shareholders, while unduly penalizing rate payers.

Currently within the audit department, there are four (4) audit manager's whose teams are completing audits, preparing *work papers*, and reviewing audit work papers differently. Managers and staff are following their own individual established processes, preparation and documentation standards. The purpose of my project is to investigate work paper preparation techniques, standards, practices, etc. with the goal of standardizing the audit department's audit processes, work paper preparation and work paper review processes. Standardization will assist in eliminating any discrepancies between managers and staff in the way audits are conducted and documented.

Standardization of work papers is important since audit work papers are used to document and support audit findings. Work papers are also used as guides, references and support for future audits. Standardization of work papers will provide a template for all auditors to follow when completing their current audit responsibilities and will allow future auditors to easily locate and research prior audit findings for subsequent audits.

Standardizing the audit work paper review process will also ensure that all work papers are prepared and reviewed properly, and that work papers are easy to follow and support our audit findings. The work paper review process will also allow managers/directors to identify possible work paper deficiencies providing a tool for staff training and development specifically designed to improve auditor skills. The work paper review process will also provide support for Employee Performance Management System (“EPMS”) evaluations.

III. Research: Audit Work Paper Standards

In order to have a better understanding of the accounting professions requirements for work papers or audit documentation, the first step was to research the American Institute of Certified Public Accountants (AICPA) and the Public Company Accounting Oversight Board’s (PCAOB) websites. Although there are no specific formats for work papers to follow, per the AICPA and the PCAOB, work papers should document the procedures and tests performed, the information obtained and the conclusions reached. Examples of work papers are *audit programs*, analyses, *memoranda*, spreadsheets, schedules, financial information, correspondence, etc. that are used by the auditor to reach their conclusions. These work papers should be prepared, organized and formatted so that an experienced auditor, having no connection to the audit, can understand them when complete. I have included links to the AICPA and PCAOB audit documentation standards as Appendix A.

The second step was to discuss with the other managers and Directors their preferences for the format and substance of the audit department's work papers. Discussions between the managers and Directors began at the September 2014 monthly audit managers meeting. Each month the managers and Directors met and discussed the various processes, standards, and formats currently employed by the audit department. All managers were able to voice their opinions on the requirements they felt should be implemented going forward, with final approval ultimately determined by the Audit Director. Based on those discussions, we determined the following completed audit work paper requirements:

- All work papers must include an Audit Program. Audit Program procedures are to be kept up to date and relevant. Deletion and/or addition of Audit Program procedures are to be approved by Directors.
- All work papers must include a work paper index.
- All work paper sections must include an index and a memo.
- All adjustments made during an audit must include the supporting calculations and a memo.
- All work papers are to be bound in either the green (non-confidential), red (confidential) or blue (permanent file) binders once completed.
- All work papers are to be completed concurrently with writing *testimony* and preparing *testimony exhibits*. Work papers are to be presented to Directors for review along with testimony and exhibits to be filed with the PSC.
- All ORS created work papers should contain as part of the header, the company name, Docket number, work paper purpose and test year (or review period) ended.

- Sources indicating the name of the person(s) who prepared or provided the work paper should be added to the top left of the work paper if different from the normal contact at the utility. Normal contact information should be included on the Audit Program.
- Add **Notes:** to work papers to help explain calculations or variances, describe the purpose of a work paper, etc. Work papers should be easy to follow, organized in a logical manner, and easy to understand. Someone with limited knowledge of the work performed should be able to understand and follow completed work papers.
- “To” and “From” references should be used to trace figures amongst work papers.
- All totals should be double underlined if they are totals calculated by ORS.
- All work paper *tick marks* should be defined on the applicable work papers unless they are standard tick marks defined at the **A** work paper section. For a work paper with multiple pages, defining all tick marks in a section on the bottom of the first page is the easiest to follow.
- Summation tick marks should be used to show how totals are calculated.
- Work papers created by ORS should be formatted in a consistent manner and in formats easy to read.
- All ORS created work papers should have as part of the left side of the footer the date and time the work paper was created. This helps identify the most recent version of the work paper.
- All ORS created work papers should have as part of the left side of footer the file name and path. This shows the location of the work paper on the audit drive and makes locating the file easier for review by the Directors or future auditors.

- All work papers should have as part of the right side of the footer the work paper index. Work papers should be indexed in accordance with the following examples: **E-1-1** (single page w/p) or **E-1-1 3/20** (multiple page w/p's)
- Add "PBC" on top of work paper reference if it is something prepared by the Company.
- All work papers should have a "sign-off" added by the auditor who created, reviewed, or included the work paper. The sign-off should be the initials of the auditor and the date they completed the work paper. For work papers with multiple pages, the sign-off should also include a reference to the number of pages (pp. 1-2, pp.1-5, etc.)
- ORS created work papers should be in Times New Roman font, preferably size 12 font.

Once the work paper standardization process is completed the work paper standards listed above should be applied to all audits and audit department work papers

IV. Implementation Plan: Work Paper Indices

I requested from all managers the work paper indices for each one of the audits they perform. I designated a folder on our network for each manager to include their respective work paper indices. The result was nineteen (19) different work paper indices from the managers, including myself, that cover all the different types of audits we perform. I then began to standardize all the indices.

The first step was to add an input sheet to each work paper index. The input sheet allows users to input some of the data that changes from year to year or from audit to audit. All of the remaining worksheets in the workbook are linked to the input sheet so that the data on the input sheet is automatically entered onto all of the following worksheets in the file.

The second step was to add a standard tick marks worksheet to all of the work paper indices. This worksheet standardizes and defines the tick marks used by all audit employees

during our reviews. This worksheet also streamlines our audit process in that the standard tick marks do not have to be defined on each work paper they are used since they are defined on the standard tick mark worksheet.

The third step was to update all work paper indices to meet the established work paper standards that all work paper sections have a memo, that they contain as part of the header the company name, docket number, work paper purpose and test year, that the indices have the appropriate footer formats (date, time, file path, indexing) and that all indices are formatted in Times New Roman font. I also made any other necessary modifications or changes to the work paper indices so that all are similar in format and function.

I have included the work paper indices in Appendix B.

V. Implementation Plan: Work Paper Memos

Two (2) of the established work paper standards are that all work paper sections must include an index and a memo and that all adjustments made during an audit must include the supporting calculations and a memo. Therefore, to ensure that memos are similar in form and contain the desired information, I compiled two (2) examples of how memos should be written and structured. One (1) memo is an example of a work paper section memo and one (1) memo is an example of an adjustment memo. These memos are constructed so that they follow the header, footer, font, etc. established work paper standards. They also are comprised so that both types of memos document the purpose of the work paper section or adjustment, that they document the procedures to be performed at that work paper section or the procedures to be performed to verify/calculate an adjustment, and that they document the results/conclusions reached as a result of the procedures performed. Although the purpose, procedures and

results/conclusions will be different for each memo, these example memos provide a template for how all work paper memos should be constructed.

I have included the two (2) examples of the memos in Appendix C.

VI. Implementation Plan: Audit Drive Organization

Another area of the audit department that needed to be standardized was the organization of electronic files on the ORS Audit drive (“audit drive”). Standardizing how information is stored electronically is important because it facilitates reviewers, Directors and future auditors with the location of the electronic versions of files on the audit drive. Therefore, I created a template of how folders should be organized on the audit drive for all ORS auditors to follow:

- Main Folder = Audit Type (i.e. Gas, Electric, Water/Wastewater)
- Secondary Folder = Company Name
- Tertiary Folder = Company Name – Docket Number
- Fourth Folder = Individual Work Paper Section Folders Based on Work Paper Index (A folder – Z folder)

As an example, electronic versions of work papers or other documentation included in the “A” folder in the bound down printed work papers should also be included in the “A” folder on the audit drive. This audit drive template will allow all managers to organize their files the same and will allow reviewers to easily locate electronic files no matter the auditor completed the review.

I have included the audit drive template in Appendix D.

VII. Implementation Plan: Staff Training

A staff training session is scheduled for mid-February to ensure that all audit employees are aware of the work paper standards established as part of this project. As part of this training I

will inform the audit department of where all the work paper standardization files that I have prepared are located on the audit drive. I also have compiled a printed/copied ORS Audit Department Standard Audit Procedures package for each member of the audit staff. This package lists all of the work paper standards and also provides examples of these standards for auditors to follow. As part of this training we will also discuss the expectations of employees and managers in regards to deadlines for completion of audits for Director and quality control reviews.

I have included the ORS Audit Department Standard Audit Procedures package to be provided to employees as part of the staff training in Appendix E.

VIII. Evaluation Method: Director's Review and Quality Control Review

One (1) of the established work paper standards is that all work papers are to be completed concurrently with writing testimony and preparing testimony exhibits. Work papers are to be presented to Directors for review along with testimony and exhibits to be filed with the PSC. This is the most important established standard. As part of ORS agency policy, all testimony and exhibits are due for Director's review a week prior to PSC filing dates. This standard requires that work papers be finished and submitted for review at the same time testimony and exhibits are due to Directors. This will enable the Directors to review work papers and verify that testimony and figures included in exhibits to be filed with the PSC are properly supported by the actual work performed. This allows the Directors time to review submitted work papers, determine if additional work needs to be performed, determine if additional documentation needs to be provided or if adjustment amounts are calculated

incorrectly. This work paper deadline standard will ensure that testimony and exhibit calculations are stated correctly and are adequately supported by the work papers.

Once testimony and exhibits are filed with the PSC, work papers will then be subjected to a quality control review performed by the senior manager. The quality control review will primarily determine if auditors and managers are following the established work paper standards. Work papers not in conformance with the established standards will be noted and added to a list of items to be corrected (“point sheet”). The point sheet will be given to the manager in charge of the respective audit and it will be their responsibility to ensure that the necessary corrections are made by themselves or their employees. This is an additional opportunity for managers to train and educate their staff on the appropriate way work papers are to be formatted and completed.

The Director’s review and quality control review will also allow senior staff to evaluate the work performed by all audit personnel and serve as a basis in determining the final rating of audit personnel on their Employee Performance Management System annual review. The point sheets will serve as documentation to help support performance review ratings whether they are deemed exceptional or unsuccessful.

IX. Summary

Work paper standardization is a necessary process for the ORS Audit Department. It serves as a template for employees to follow and assists audit personnel in successfully documenting and supporting their findings. If followed, work paper standardization will allow other experienced auditors, whether for review purposes or future audits, to comprehend and understand the audit work that was performed and the adjustments proposed during an audit. It sets standards for managers and employees to follow, to be evaluated by and be held accountable

to. Standardization helps identify deficiencies of audit personnel and allows audit managers to assist in the training and development of their employees.

Implementation of the work paper standardization and review process has been approved by the ORS Audit Director and other managers have already begun following some of the templates for indices and memos that have been established. Once the staff training occurs later this month, all audit personnel will be subject to the standards, procedures, deadlines and reviews set forth as part of this work paper standardization and work paper review process.

X. Appendix A

Research and Audit Work Paper Standards

<http://pcaobus.org/Standards/Auditing/Pages/AU339b.aspx>

[AU Section 339A - Working Papers](#)

[Auditing Standard No. 3](#)

http://www.hkicpa.org.hk/file/media/section6_standards/standards/sas230.pdf

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00339.pdf>

(control + click to access websites)

XI. Appendix B

Work Paper Indices

Due to file size these have been included on a flash drive and provided to Nathan Strong. These indices are proprietary in nature and are not to be published publicly.

XII. Appendix C

Work Paper Memos

These have been included on a flash drive with the work paper indices and provided to Nathan Strong. These memos are proprietary in nature and are not to be published publicly.

XIII. Appendix D

Audit Drive Organization

The audit drive organization folders have been included on a flash drive with the work paper indices and work paper memos and provided to Nathan Strong. These folders are proprietary in nature and are not to be published publicly.

XIV. Appendix E

Staff Training

The staff training package has been included on a flash drive with the work paper indices, work paper memos, and audit drive organization folders and provided to Nathan Strong. The staff training package is proprietary in nature and is not to be published publicly.

XV. Appendix F

Glossary of Terms

Audit Program – List of step by step procedures to be followed by auditors for a particular audit or engagement.

Work Papers – Any audit support such as audit programs, memos, excel spreadsheets, invoices included as documentation of work performed for an audit.

Memoranda (Memo) – Worksheet documenting the purpose, procedures performed and results/conclusion of a particular work paper section included in an audit.

Testimony – Audit report in question and answer format for live presentation in front of the PSC.

Testimony Exhibits – Schedules included along with testimony to support figures included in testimony. Exhibits detail financial information such as income statements, audit adjustments, tax calculations, etc.

Tickmarks – Notations used on audit work papers to show audit procedures performed. For example, a check mark added under a total

for a column of numbers indicates that total was manually added and matched to the total shown (footed).